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# AHED MUSIC CORPORATION LIMITED

## ANNUAL REPORT 1976

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## HIGHLIGHTS OF OPERATIONS (in thousands of dollars)

YEARS ENDED NOVEMBER 30	1976	1975	1974	1973	1972
OPERATING					
Gross Revenenue	\$13,269	\$8,082	\$6,826	\$6,118	\$5,306
Operating Profit (before extraordinary items)	361	163	63	31	261
Net Income (loss)	340	184	22	(42)	261
FINANCIAL POSITION					
Working Capital	2,382	2,022	2,026	2,109	2,193
Total Assets	7,372	4,860	4,089	4,365	3,498
Long Term Debt	417	518	596	715	637
Shareholders Equity	2,382	2,022	1,838	1,797	1,844
Capital Expenditures	219	210	78	223	57
EARNINGS (LOSS) PER SHARE					
Before Extraordinary Items	42.4	19.7	7.6	3.1	31.9
After Extraordinary Items	39.9	22.2	2.6	(5.8)	31.9
Shares Outstanding (in thousands)	851.5	826.5	826.5	826.5	826.5

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## REPORT TO THE SHAREHOLDERS

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For Ahed, 1976 has been a significant year. Gross revenue increased by 64%. In dollars, this increase amounted to 13,268,694 as compared with 8,081,709 for the previous year.

Net operating income also reached a new high in 1976 at 361,499 up from 162,542 for the previous year or a percentage gain of 122%.

During 1976 the company established a subsidiary in the United States, Ahed Music Inc., which has operating offices in Buffalo, New York. The purpose of the company was to expand our record and tape marketing business to the U.S. market. We undertook a test campaign in the late spring of 1976 and subsequently marketed the Fonz "Happy Days" record in most major markets in the U.S. We will be continuing to expand this operation in 1977, commencing with a Bobby Vinton Party Music album. The popular Bobby Vinton television show has been in syndication in the United States and Canada for the past two years.

Again the significant improvement in sales and profits has come about as a result of our decision to concentrate on the marketing of products. As a result of the current uncertain economic conditions in Canada we will follow a conservative policy in opening further Mr. Music organ and piano studios. No further capital expenditures are anticipated for Precision Record Productions in 1977.

Finally, once again we would like to thank all the employee's of Ahed that contributed to our improvement in operating profits this year.

Phillip G. Anderson      Chairman of the Board and Chief Executive Officer

W.R. (Bill) Gilliland      President





**AHED MUSIC CORPORATION LIMITED**  
and subsidiary companies

**CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS** (year ended November 30)

	1976	1975
Sales and royalty income	\$13,268,694	\$8,081,709
Cost of sales	6,923,652	4,573,220
Income before the undernoted expenses	6,345,042	3,508,489
Expenses:		
Selling, general and administrative	5,399,859	2,995,882
Interest — long-term debt	67,397	78,871
— short-term debt	61,369	48,129
Depreciation and amortization	121,098	89,835
	5,649,723	3,212,717
Income before income taxes and extraordinary items	695,319	295,772
Income taxes—current (Note 4)	242,420	105,330
— deferred	91,400	27,900
	333,820	133,230
Income before extraordinary items	361,499	162,542
Extraordinary items:		
Reduction in income taxes due to the application of prior years' losses		21,200
Loss on disposal of operation	(21,479)	
	(21,479)	21,200
Net income for the year	340,020	183,742
Retained earnings, beginning of the year	872,225	688,483
Retained earnings, end of the year	\$1,212,245	\$ 872,225
Earnings (loss) per share:		
Before extraordinary items	42.4¢	19.7¢
Extraordinary items	(2.5)¢	2.5¢
Net income	39.9¢	22.2¢

(See accompanying notes)

**AUDITORS' REPORT**

To the Shareholders of

Ahed Music Corporation Limited:

We have examined the consolidated balance sheet of Ahed Music Corporation Limited as at November 30, 1976 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at November 30, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,  
March 28, 1977

Clarkson, Gordon & Co.  
Chartered Accountants



**AHED MUSIC CORPORATION LIMITED**

(Incorporated under the laws of Ontario)  
and subsidiary companies

**CONSOLIDATED BALANCE SHEET** (as at November 30)

<b>ASSETS</b>	<b>1976</b>	<b>1975</b>
Current:		
Cash	<b>\$60,941</b>	
Accounts receivable (notes 5(b) and 7)	<b>4,005,909</b>	\$2,460,940
Current portion of long-term receivables	<b>35,240</b>	31,260
Inventories, at lower of cost and net realizable value	<b>2,477,886</b>	1,783,316
Prepaid expenses	<b>197,004</b>	15,749
Total current assets	<b>6,776,980</b>	4,291,265
Fixed, at cost [note 1(d)]:		
Machinery and equipment	<b>519,356</b>	425,404
Office equipment	<b>114,637</b>	111,536
Automotive equipment	<b>38,642</b>	31,579
Leasehold improvements	<b>298,088</b>	225,870
	<b>970,723</b>	794,389
Less accumulated depreciation	<b>442,941</b>	347,909
	<b>527,782</b>	446,480
Other:		
Long-term receivables, less current portion	<b>42,678</b>	75,620
Goodwill, trademarks and patents [note 1(e)]	<b>25,000</b>	46,482
	<b>67,678</b>	122,102
	<b>\$7,372,440</b>	\$4,859,847





<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1976</b>	<b>1975</b>
Current:		
Bank indebtedness (note 2)	<b>\$ 892,193</b>	\$ 789,066
Accounts payable	<b>3,209,372</b>	1,319,904
Income and other taxes payable	<b>329,344</b>	160,351
Deferred income taxes	<b>71,500</b>	
Total current liabilities	<b>4,502,409</b>	2,269,321
Special term bank loan and equipment loan repayable in annual installments of \$96,000, less current portion included above (note 2 and 3)	<b>417,085</b>	517,500
	<b>\$4,919,494</b>	2,786,821
Deferred income taxes	<b>70,900</b>	51,000
Shareholders' equity:		
Share capital —		
Authorized:		
1,500,000 shares without par value		
Issued and outstanding:		
851,500 shares (826,500 in 1975) (note 7)	<b>1,169,801</b>	1,149,801
Retained earnings	<b>1,212,245</b>	872,225
	<b>2,382,046</b>	2,022,026
	<b>\$7,372,440</b>	\$4,859,847

On behalf of the Board: P.G.Anderson, Director — W.R.Gilliland, Director

(See accompanying notes)





**AHED MUSIC CORPORATION LIMITED**  
and subsidiary companies

**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION** (year ended November 30)

	1976	1975
Funds provided from:		
Operations—		
Net income for the year	\$ 340,020	\$ 183,742
Add items not involving an outlay of funds:		
Depreciation and amortization	121,098	89,835
Non-current deferred income taxes	19,900	27,900
Public financing costs, patents, trademarks and incorporation expenses written off		16,239
Loss on disposal of operation	21,479	
	502,497	317,716
Proceeds on disposal of fixed assets	17,030	10,893
Long-term bank loans	103,806	45,000
Issue of share capital	20,000	
Reduction in long-term receivables	32,942	31,739
	676,275	405,348
Funds used for:		
Purchase of fixed assets	219,430	220,631
Repayment of long-term debt	204,218	123,000
Increase in long-term receivables		65,467
	423,648	409,098
Increase (decrease) in working capital	252,627	(3,750)
Working capital, beginning of the year	2,021,944	2,025,694
Working capital, end of the year	\$2,274,571	\$2,021,944

(See accompanying notes)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOVEMBER 30, 1976

1. Significant accounting policies

(a) Principles of consolidation—

The consolidated financial statements include the accounts of the company and all of its subsidiaries.

(b) Exchange translation—

Current assets and liabilities in foreign currency have been translated into Canadian dollars at the approximate rate of exchange at November 30, 1976. Other transactions during the year have been translated at the rates of exchange prevailing on the respective dates of the transactions.

(c) Sales—

The company sells records and tapes on a "guaranteed sale" basis. Under this arrangement customers are allowed to return unsold records and tapes to the company for credit. For this reason a provision has been made for the expected returns.



(d) Depreciation and amortization—

The company depreciates fixed assets on the diminishing balance basis at the following rates:

Machinery and equipment	—	20%
Office equipment	—	20%
Automotive equipment	—	30%

Leasehold improvements, other than for "Mr. Music" stores, are amortized on the straight-line basis over the term of the lease. Leasehold improvements for "Mr. Music" stores are amortized on the straight-line basis over a five-year period.

(e) Goodwill—

It is not the company's intention to amortize goodwill acquired prior to April 1, 1974. If it becomes apparent that the value is permanently impaired, it will be written down.

2. Bank indebtedness and special term bank loan

The bank indebtedness and special term bank loan are secured by a general assignment of the accounts receivable and inventories of the company and a \$1.5 million floating charge demand debenture.

3. Equipment loan

During 1976 the company borrowed \$73,000 to acquire machinery and equipment. Under the terms of the agreement the company will be committed to pay approximately \$21,000 (including interest) per annum until 1981.

4. Income taxes

Income before income taxes and extraordinary item include the following:

	1976	1975
Income from taxable corporations	\$695,319	\$248,170
Foreign income not subject to income taxes		47,602
Income before income taxes and extraordinary item	<u>\$695,319</u>	<u>\$295,772</u>

Reductions in income taxes of approximately \$27,000 which may result from the application of expenses unclaimed for tax purposes in prior years will be included in the income of the company as extraordinary items, when, and to the extent that, they are realized.

5. Statutory information

(a) Remuneration—

The aggregate direct remuneration paid by the company and its subsidiaries to the directors and senior officers of the company (as defined by The Business Corporations Act of Ontario) for the year amounted to \$220,000 (\$190,000-1975).

(b) Loan to director—

During the year a subsidiary of the company made an interest free loan of \$20,000 to a director to assist in the purchase of a house. This amount is included in accounts receivable.

6. Commitments

Under lease agreements, the company is committed to annual rental payments of approximately \$265,000 until 1983 for certain manufacturing equipment, its manufacturing, warehousing and executive offices, and its "Mr. Music" stores.

7. Employee share purchase plan

The company has established an Employee Share Purchase Plan for certain senior personnel of the corporation.

The plan provides for the advance of sums of money to the Trustee for the purchase of shares in the corporation for the benefit of eligible employees. Under the terms of the plan, a maximum of 40,000 unissued common shares of the company may be made available at the discretion of the directors of the corporation. The purchase price is to approximate the market value at the date of exercise. Alternatively, the Trustee can acquire shares in open market for the purpose of this plan.

During 1976, 25,000 treasury shares were allocated under the plan and purchased by the Trustee for an aggregate consideration of \$20,000.

In accordance with the terms of the plan this purchase was financed by an interest free loan for a maximum term of five years from the company to the Trustee who acquired the shares on behalf of the employees involved. The \$20,000 due from the Trustee is included in accounts receivable and is secured by promissory notes executed by the employees payable to the Trustee. These notes bear no interest and are for a maximum term of five years. In addition the Trustee is holding the shares as collateral for the indebtedness.

8. Anti-Inflation Program

As a public company, the company is restricted under the Anti-Inflation Regulations in the payment of dividends.





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## AHED MUSIC CORPORATION LIMITED

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### DIRECTORS

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Phillip G. Anderson  
W.R. (Bill) Gilliland  
Walter M. Bowen, Q.C.  
Donald O. Resnick, C.A.  
Jack C. Anderson  
J.F. (Hans) Jurrius, C.A.

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### OFFICERS

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Phillip G. Anderson	- Chairman and Chief Executive Officer
W.R. (Bill) Gilliland	- President
Jack C. Anderson	- Vice-President
J.F. (Hans) Jurrius	- Vice-President and Secretary

#### Head Office

142 Sparks Avenue, Willowdale, Ontario, Canada. M2H 2V9

(416) 499-5000

#### Transfer Agents

Canada Permanent Trust Co.

#### Auditors

Clarkson, Gordon & Co., Toronto

#### Legal Counsel

Blaney, Pasternak, Smela & Watson, Toronto

#### Bankers

Bank of Montreal

#### Listing

Toronto Stock Exchange

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